

**REVISED OPENING STATEMENT OF
SEA BREEZE CORPORATE POLICY/MANAGEMENT PANEL**

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My name is Paul Manson. I am the president and a director of Sea Breeze Victoria Converter Corporation, the proponent of the Juan de Fuca Cable Project (JdF) which is presently before the National Energy Board, and an Intervenor in BCTC's Application for a Certificate of Public Convenience and Necessity for the Vancouver Island Transmission Reinforcement Project (VITR).

I am joined on this panel by Brian Chernack, a fellow director of Sea Breeze Victoria Converter Corporation and president of Boundless Energy LLC, an energy project developer from York Harbor, Maine and an integral part of the Sea Breeze team. Among its accomplishments, Boundless Energy LLC is the originator and one of several private owners of the Neptune Regional Transmission System, a 660 MW, 110 km, submarine HVDC link being built between New Jersey and Long Island, New York, which has been selected as the winner of the Long Island Power Authority's long term RFP to supply energy and capacity to its system.

I am also pleased to advise that the Neptune Transmission Project has been recognized by the Institutional Investor Magazine as the 2005 "Project Finance Deal of the Year for North America", by Project Finance International Magazine as "North America Infrastructure Deal of the Year", and by Euromoney as "North America Infrastructure Deal of the Year".

Long Island Power authority chairman, Richard Kessel, was quoted in December as calling the Neptune Project the most important energy project in the history of Long Island.

I am also joined by Dr. Zak El-Ramly, principal of ZE PowerGroup Inc. and ZE Power Engineering Inc. Dr. El-Ramly and his group bring a wealth of experience and innovative thinking to Sea Breeze's team, through its multidisciplinary team of engineers and consultants specializing in energy sector asset management, system planning, design and strategic marketing. In particular, ZE Power's system planners, Bruce Prior, Jim Polvi, Jiri Sochor and Gabor Furst, are intimately familiar with the British Columbia and Pacific Northwest transmission systems, and collectively bring over a century of system planning experience to Sea Breeze's team.

Sea Breeze's Alternatives

Sea Breeze and its affiliates have been actively involved in the energy industry in the Pacific Northwest for the past several years. In particular, they have taken part in various regulatory proceedings before this Commission dealing with the transmission issues

facing Vancouver Island, including the BC Hydro Vancouver Island Call for Tenders proceeding, and the 2004 and 2005 BCTC Transmission System Capital Plan proceedings, as well as the current VITR proceeding.

Since early 2004 and in these various proceedings before the Commission, Sea Breeze and its affiliates have consistently promoted the use of HVDC Light® technology – a state-of-the-art enhancement of traditional high voltage direct current power transmission technology – as an alternative to BCTC's proposal to build a 230 kV AC line for the purpose of addressing the need for reliable transmission capacity to Vancouver Island that will result from the de-rating of Pole 2 of BCTC's existing HVDC system in 2007.

This was reflected, for example, in the Commission's Reasons for Decision in the 2004 Capital Plan proceeding, where the Commission observed (Exhibit B2-52, p. 11):

Sea Breeze [Pacific RTS] has proposed the replacement of the existing Georgia Strait HVDC system with a new 1200 to 1500 MW "HVDC Light" system. Sea Breeze's original concept involved rebuilding the existing HVDC valve halls. However, because of BCTC's concerns for safety and reliability in a liquefaction zone, Sea Breeze is now proposing to build four entirely new 350 MW HVDC circuits out of the liquefaction zone ... It is also proposing to connect Vancouver Island to the Olympic Peninsula using an HVDC Light system with a capacity of up to 1100 MW ...

Sea Breeze believes that, in comparison with BCTC's 230 kV AC proposal, its HVDC proposal would provide better reliability of supply to the island, have lower environmental and electromagnetic field impacts, improve import/export capacity between British Columbia and the US, and provide better economic value to consumers ... Sea Breeze submits that alternatives to the 230 kV option have not been examined, that system studies to fully identify the risks and benefits of BCTC's proposals have not been undertaken, and that the 230 kV option has simply been inherited from BC Hydro ... In Sea Breeze's view, BCTC has failed to: consider the economic and reliability benefits available from replacing the existing HVDC line with newer HVDC Light technology; adequately evaluate transmission solutions other than the 230 kV option; consider any parameters other than the initial installed cost and maximum thermal capacity; perform interconnection studies to support its claims of the line's transfer capacity; propose a submarine cable design that represents the best environmental technology; or comply with Policy Action #15 of the Energy Plan ...

The JdF Alternative

Specifically, Sea Breeze and its affiliates have advocated their JdF proposal, for a 540 MW HVDC Light® merchant transmission line between Pike Lake Substation in Greater Victoria and BPA's Port Angeles Substation on the Olympic Peninsula in Washington State, as providing a more economical solution to the transmission issues facing Vancouver Island than ratepayer-funded investment in the VITR Project. For example, in its February 4, 2005 Final Submissions to the Commission in the CFT proceeding, Sea Breeze Pacific RTS clearly stated (Exhibit B2-52, p. 20): "The total cost to the rate base of resolving the Vancouver Island capacity issue can therefore be the simple cost of

buying the rights to transmission capacity on the Juan de Fuca interconnection. There will be no capital costs or tolling options or arguments about stand-by rates.”

Given the positions which Sea Breeze has consistently advocated in these various proceedings, I must say I was surprised to hear Ms. Peverett testify in this proceeding that it was not “until very recently” that BCTC understood Sea Breeze to be proposing the JdF Project as an alternative to VITR (Transcript, Volume 16, pp. 2763-2764).

Sea Breeze continues to believe that the JdF facility could also offer a viable option for addressing Vancouver Island’s need for additional reliable transmission capacity, thereby avoiding or deferring the need for ratepayer-funded investment in the VITR Project. We consider it unfortunate that BCTC appears to have misunderstood the potential for the JdF Project to satisfy Vancouver Island’s transmission reinforcement needs, and that, as a result, BCTC has failed to seriously consider JdF as an alternative to VITR.

Issues relating to the JdF Project will be dealt with principally by Panel D (Sea Breeze Alternative Panel). However, as the Commission is aware, I would note now that Sea Breeze is proposing to ensure ratepayer savings by selling or leasing firm south to north transmission capacity on the JdF line to BC Hydro or BCTC for a negotiated price to be based in principle on a discount from BCTC’s VITR revenue requirement, plus a credit for system benefits.

The VIC Alternative

In the present proceeding, Sea Breeze also proposed the Vancouver Island Cable Project (VIC) – a proposed 540 MW transmission link from Ingledow Substation in Surrey to Pike Lake Substation – as another alternative to VITR which, like the JdF Project, would also provide a superior means of meeting Vancouver Island’s transmission needs, having regard to all relevant system planning, socio-economic, and environmental considerations.

Sea Breeze originally proposed that the VIC Project would be owned by Sea Breeze, but operated by BCTC as a fully-regulated transmission facility and as an integrated part of the provincial transmission system, in a similar way to how BCTC presently operates BC Hydro’s transmission assets.

Although it has always been Sea Breeze’s view that the JdF Project can provide a viable solution to the transmission issues facing Vancouver Island, Sea Breeze proposed VIC as another potential alternative to VITR for a variety of reasons.

In particular, as Sea Breeze outlined in its response to BCUC Information Request 1.6.2 on the VIC Application (Exhibit B2-8), the use of the JdF Project to satisfy Vancouver Island’s transmission reinforcement needs depends on BCTC and/or BC Hydro taking the necessary steps to allow it to be used for that purpose, including purchasing or leasing

firm south to north transmission capacity on the JdF line, and working cooperatively with other authorities (including the BC Government and BPA) to ensure that a supply of power will be available on the Juan de Fuca line whenever it is needed in a contingency.

On the other hand, VIC provides an alternative for solving the transmission needs facing Vancouver Island which does not depend on those conditions, and which still provides a better overall solution than VITR for addressing Vancouver Island's transmission deficiency.

I would also note that:

- the VIC and JdF Projects are congruent proposals, either one of which would fulfill the present need for reinforcement of the Vancouver Island transmission system and satisfy forecast demand on the Island, thereby avoiding or deferring the need for VITR;
- the VIC and JdF Projects are not mutually dependent, in the sense that either project could be constructed and brought on line first;
- because the VIC and JdF Projects would both provide interconnections to the Pike Lake Substation close to the Island's peak load in Greater Victoria, either Project has the ability to deliver similar system benefits to southern Vancouver Island;
- the VIC and JdF Projects can be seen as complementary, in the sense that, if both lines are built, it will avoid the need not only for VITR but also for the second 230 kV AC line presently contemplated by BCTC to be brought on line in 2017; and
- in combination, the VIC and JdF Projects would also have the added advantage of providing considerably enhanced export capacity for the British Columbia grid.

Despite the unfortunate turn of events that occurred last week and which led to Sea Breeze's withdrawal of its VIC CPCN Application, Sea Breeze still believes that VIC, or a VIC-like project, provides a better solution than VITR to Vancouver Island's transmission needs – even if that project is to be constructed by BCTC and owned by BC Hydro. We are therefore very pleased, given the circumstances as they have evolved, that the Commission has decided it will still consider whether the VIC Project, as defined and advocated by Sea Breeze in this proceeding, provides a better alternative than VITR for solving the transmission issues facing Vancouver Island.

Sea Breeze Alternatives – Innovative Solutions

In proposing the JdF and VIC Projects, Sea Breeze has invited the Commission to “think outside the box”, by considering the ability of private sector transmission development and merchant transmission to meet British Columbia's system planning needs in

innovative ways, that can allow ratepayers to avoid the risk and rate consequences of “lumpy” investments and allow major capital transmission investment risk to be undertaken by private companies.

Despite its withdrawal of the VIC Application, Sea Breeze continues to believe that these new and evolving concepts have a very significant potential to deliver benefits to ratepayers and other stakeholders in British Columbia which are unlikely to be realized by public sector-driven investment in projects using older technology like VITR. Sea Breeze also believes that the best way to explore that potential is by working cooperatively, collaboratively and constructively with public sector entities such as BCTC and BC Hydro, consistent with the public-private partnership model which has been embraced by this Province with respect to other major infrastructure development.

Indeed, Sea Breeze (and its affiliates) have been attempting for some time to engage BCTC and BC Hydro in collaborative discussion of these concepts (such as through Sea Breeze’s active participation in the 2004 and 2005 BCTC Capital Plan proceedings). However, Sea Breeze has been disappointed by BCTC and BC Hydro’s apparent lack of willingness to date to give serious or meaningful consideration to these concepts, and, in particular, their failure to properly or adequately consider the potential advantages of using private sector-funded transmission services to meet system planning needs, despite the fact that this Commission has clearly recognized the potential for customer-supplied solutions to transmission constraints as an alternative to BCTC or BC Hydro-funded investments, and has directed BCTC to initiate discussions with customers to explore such options.

As a result, Sea Breeze feels that it has been forced into an adversarial stance, which led to its filing of the VIC CPCN Application last Fall, and the unprecedented consolidation of that Application with BCTC’s VITR Application in the present proceeding. Sea Breeze took its undertaking to file and pursue a competing CPCN Application very seriously, and dedicated very substantial resources and incurred very significant expense to do so, to ensure that the Commission would have the information it needs to fully and adequately consider the ability of both the VIC and JdF proposals to meet Vancouver Island’s transmission needs.

Although BCTC and BC Hydro’s reactive approach to Sea Breeze’s initiatives has been disappointing – Sea Breeze had hoped that both BCTC and BC Hydro would have been more open and proactive in analyzing Sea Breeze’s proposal – the attitude demonstrated to date by BCTC and BC Hydro is not dissimilar to the early reactions of the public entities involved in the Neptune Project. Fortunately, in that case, the public entities overcame their initial hesitation and now have accepted third party transmission infrastructure investment as an appropriate solution to their transmission needs.

This new proactive approach to transmission infrastructure investment and development is now becoming more widespread in the United States. For example, Sea Breeze is participating with a number of utilities in the United States to study and develop third party transmission or merchant transmission projects. A good example of this is our agreement with PG&E to study the viability of the West Coast Cable Transmission Line between Portland and San Francisco.

We are hopeful that the BCUC will see the merits of analyzing Sea Breeze's proposals as solutions to BC's transmission needs and, in that light, provide the appropriate directions to BCTC to ensure that these projects are not summarily dismissed by BCTC, but are instead thoroughly analyzed to determine their appropriateness as solutions to transmission issues facing British Columbia.

Two Distinct Set of Issues are Before BCUC

In considering the JdF proposal and the revised VIC alternative, there are now two distinct sets of issues which the Commission must separately assess:

1. issues relating to the ability of the VIC and/or JdF Projects to satisfy Vancouver Island's need for transmission reinforcement; and
2. issues relating to the capability of the team which Sea Breeze has assembled to develop the JdF project.

These issues must be considered separately. As such, this Panel will be available to answer many of the questions which the Commission and participants may have relating to the second set of issues, including questions relating to the financial capacity of Sea Breeze's team, supported by EIF and Société Générale, and the relationship between Sea Breeze and ABB, and ABB's involvement as part of Sea Breeze's team (although ABB representatives will also be made available to answer questions directly on Panel B).

Issues relating to the ability of the VIC alternative, as conceived by Sea Breeze, to satisfy Vancouver Island's transmission requirements in a better way than the VITR Project will principally be dealt with by Panel B (Engineering/System Planning Panel) and Panel C (Geotechnical, Environmental and Routing Issues Panel).

Issues relating to the ability of the JdF Project to satisfy Vancouver Island's transmission needs, to the extent such issues are unique to JdF, will principally be dealt with by Panel D (Juan de Fuca Alternative Panel); however, to the extent issues are common to JdF and VIC, or to the extent they may require the expertise of members of one of the other panels, questions relating to JdF should first be posed to another panel.

Sea Breeze Project Team

With respect to the capability of the team which Sea Breeze has put together, central to that team is ABB, one of the world's leading engineering companies and the developer of HVDC Light® technology. ABB is a global leader in power and automation technologies that enable utility and industry customers to improve their performance while lowering environmental impacts.

Sea Breeze also enjoys financial backing from Energy Investor Funds (EIF), a private equity firm recognized as a global expert in energy finance, and one of the world's leading investors in private power projects and companies. EIF has particular experience with independent regulated transmission development, having provided equity financing for Boundless's Neptune Project as well as California's Path 15 Upgrade Project, a development involving an increased capacity of 1,500 MW on one of California's main transmission pathways.

Sea Breeze's financial advisor is Société Générale, one of the world's largest global financial institutions, which has been very active in creatively financing private-public partnership projects in North America including British Columbia. Besides serving as financial advisor and/or arranger for important transmission projects such as Neptune and Path 15, Société Générale also has been instrumental in successfully financing major infrastructure development projects in British Columbia, including the Millennium RAV Line and Sea to Sky Highway Expansion Projects.

I am also very pleased to advise that Project Finance International Magazine has just announced that Société Générale has been awarded the title of "Global Bank of the Year".

Conclusion

For the first time, within this proceeding, this Commission has the opportunity to thoroughly and comprehensively consider private sector-driven alternatives to a major transmission infrastructure development proposed by the public transmission utility. And, although the VIC alternative is no longer being proposed as a private sector-owned facility, the approach taken by Sea Breeze in advocating both the JdF and VIC alternatives to VITR represents a watershed for transmission development and regulation in this Province.

Sea Breeze is very pleased to have been given this opportunity to bring forward the two alternatives to VITR, and to assist the Commission in arriving at decisions about transmission infrastructure development that will best serve the collective needs and interests of ratepayers, other stakeholders, and the Provincial transmission system as a whole.